



# New York City's Office Market

## Highlights

- Office employment in New York City reached a record of 1.5 million in 2016, an increase of 15 percent (202,000 jobs) since the end of the recession in 2009.
- In 2016, there were 550 million square feet of office space in New York City. The City's three main business districts (Midtown, Midtown South, and Downtown Manhattan) together contain 450 million square feet of office space, representing more than one-quarter of all the office space in the nation's business districts.
- The amount of office space in Manhattan's business districts is three times larger than in Chicago (which is ranked second nationally) and twice as large as in London (which is ranked second internationally).
- Class A office space has increased by 45 million square feet since 2000, and now comprises nearly two-thirds of all office space in New York City.
- Strong demand for office space lowered the vacancy rate in Manhattan from 12.8 percent at the end of the recession to 9.7 percent in 2015. The vacancy rate edged up to 10.1 percent in 2016, as new space came on the market at a faster rate than it could be absorbed.
- Office building owners paid \$4.8 billion in property taxes in City fiscal year 2016 (one-fifth of all property taxes collected). In total, office buildings accounted for nearly 11 percent of City tax collections.
- The value of office building transactions reached \$14.4 billion in fiscal year 2016, nearly a sixfold increase over six years, reflecting investor confidence in the City.

The terrorist attacks on September 11, 2001, resulted in the destruction of 13 million square feet of office space at the World Trade Center complex. Since 2001, 38 million square feet of space have been added in New York City, with more than half added in the past five years alone.

The demand for office space is being driven by the largest employment expansion in the City's history. Since the end of the recession, more than 620,000 jobs have been added, including 202,000 office jobs. Office employment accounts for one-third of the 4.3 million jobs in the City.

The demand for office space has contributed to the growth in construction jobs, which reached a record of 144,000 in 2016. It is also responsible for the rapid rise in the market value of office properties, which reached \$168 billion in City fiscal year 2017, nearly triple the value in 2000.

The drive to create new space has also pushed office development beyond the traditional Midtown Manhattan market to the far West Side, Midtown South, Downtown Brooklyn and Long Island City. The proposed rezoning of East Midtown Manhattan would help meet the demand for more state-of-the-art office space.

Together, New York City's three main business districts represent the largest market for office space in the world and an important part of the City's economy. These properties attract businesses and workers from around the world. The activities that take place in offices account for two-thirds of all economic activity in the City.

Over the next few years, millions of square feet of new office space will become available for leasing. The time needed to absorb the additional space will depend on the future pace of employment growth, which has shown signs of slowing. With the large increase in modern Class A office space in recent years and new projects underway, New York City remains the world's premier office market.

## Market Size

Based on data provided by the New York City Department of Finance, there were 550 million square feet of office space in the City in 2016.<sup>1</sup> While there are commercial districts in each of the five boroughs, the three largest business districts in Manhattan (Midtown, Midtown South and Downtown) together contain 450 million square feet of office space, or 82 percent of all space citywide.<sup>2</sup> As a result, real estate professionals consider these districts to be representative of the City.

Combined, the three Manhattan business districts have more office space than any other city in the world. Among international cities, the three Manhattan districts have twice as much office space as Central London (220 million square feet).<sup>3</sup>

Among U.S. cities, the Manhattan districts combined are three times larger than the Chicago business district (see Figure 1).<sup>4</sup> They account for more than one-quarter (29 percent) of all the office space in the nation's business districts.

Large concentrations of office space are also found in greater Downtown Brooklyn (20 million square feet) and Long Island City (7 million square feet). Together, they account for another 5 percent of the City's office space.

**FIGURE 1**  
Largest Business Districts in the Nation

Rank	City	Sq. Ft. (millions)
1	Manhattan	450
2	Chicago	142
3	Washington, DC	114
4	Boston	66
5	San Francisco	52
6	Seattle	52
7	Atlanta	47
8	Philadelphia	45
9	Dallas	38
10	Houston	34

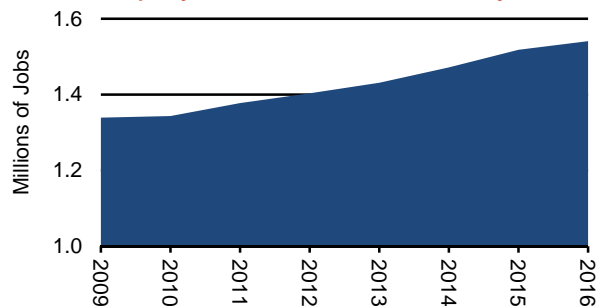
Note: As of the fourth quarter of 2016. Manhattan comprises the Midtown, Midtown South and Downtown business districts.

Sources: Jones Lang LaSalle; OSC analysis

## Office Employment

New York City is experiencing the largest job expansion in its history. Since 2009, the City has added more than 620,000 jobs, raising the total to 4.3 million jobs. Office-based employment increased by 202,000 jobs (15 percent), reaching a record 1.5 million in 2016 (see Figure 2), or about one-third of all jobs in the City.<sup>5</sup> The rate of job growth, however, slowed in 2016.

**FIGURE 2**  
Office Employment in New York City



Sources: NYS Department of Labor; U.S. Bureau of Labor Statistics; OSC analysis

Together, the business services sector and the technology, advertising, media and information (TAMI) sector totaled 911,000 jobs in 2016, accounting for 59 percent of all office jobs in New York City. Since 2009, these sectors have added 176,000 jobs, representing 87 percent of the growth in City office jobs.

The financial sector (including banking, securities, insurance and real estate) totaled 460,000 jobs in 2016, nearly one-third of the City's office employment. However, the sector added only 26,000 jobs, a smaller increase than in earlier expansions. Most finance jobs are now located in Midtown rather than in Downtown Manhattan.

Office-based government jobs (113,000 in 2016) represented 7 percent of office employment. Medical offices represented only 4 percent of office employment (58,000 jobs), but this category has grown by 18 percent since 2009.

## Office Inventory

The terrorist attacks on September 11, 2001, destroyed 13 million square feet of office space at the World Trade Center complex.<sup>6</sup> Over the following decade, the redevelopment of Lower Manhattan and new construction elsewhere in the City replaced the space that was lost on that day.

According to data from Jones Lang LaSalle, the amount of office space in the three Manhattan business districts increased by a net of 38 million square feet between 2001 and 2016 (see Figure 3). More than half (20 million square feet) was added in the past five years.

As a result, office space in the three districts totaled 450 million square feet in 2016, 26 million more than before the terrorist attacks. The building of new office towers has contributed to the overall gains in construction employment, which reached a record of 144,000 jobs in New York City in 2016.

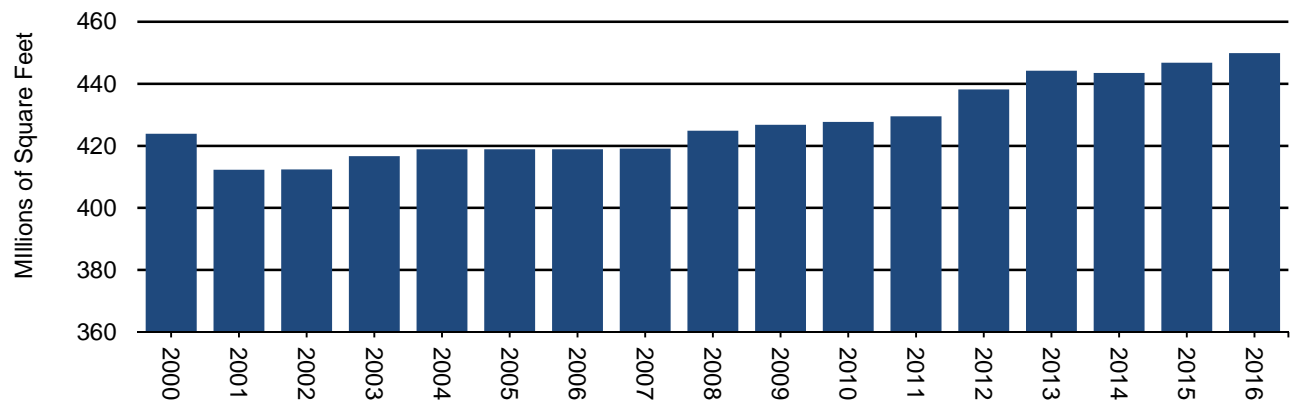
The amount of Class A space (i.e., modern interiors with up-to-date amenities) increased by 44 million square feet between 2000 and 2016, and now comprises nearly two-thirds of all office space in the City, a higher share than in 2000. The addition of new Class A office space has been partially offset by the conversion of older office space to residential use.

The redevelopment of the World Trade Center site has substantially increased the amount of Class A office space in Downtown Manhattan. The three completed towers contain 7 million square feet of Class A space, with another 2 million square feet under construction (scheduled for completion in 2018).

Hudson Yards, located between 10th and 12th avenues from West 30th to West 34th streets, is the largest private real estate development in Manhattan since Rockefeller Center. When completed in 2025, this mixed-use complex will include more than 6 million square feet of Class A office space, as well as residential and retail space. One of the office towers, 30 Hudson Yards, will be the second-tallest office tower in the City after One World Trade Center.

In January 2017, the City began reviewing proposed zoning changes for Greater East Midtown (a Midtown submarket) to encourage new state-of-the-art office space and to facilitate upgrades to six subway stations. (This proposal builds on the rezoning of the Vanderbilt Avenue corridor adjacent to Grand Central Terminal, which was approved in May 2015.) According to the Department of City Planning, Greater East Midtown has 70 million square feet of office space in 475 buildings, of which more than 300 are at least 50 years old. If approved, the rezoning is expected to result in the construction of 16 new buildings.

**FIGURE 3**  
Office Space Inventory in Manhattan's Three Central Business Districts



Note: Data are for the year-end.  
Sources: Jones Lang LaSalle; OSC analysis

## Market Value of Office Properties

The demand for office space has lowered the vacancy rate in Manhattan from 12.8 percent at the end of the recession (2009) to 9.7 percent in 2015. The vacancy rate edged up to 10.1 percent in 2016, as new space came on the market at a faster rate than it could be absorbed. Rental rates have risen steadily since the recession, increasing by almost one-quarter (to \$71.70 per square foot).<sup>7</sup> This has raised the value of existing buildings and spurred new construction and renovations.

As shown in Figure 4, the total market value of office space in New York City reached \$168 billion in City fiscal year (FY) 2017, an increase of 179 percent since FY 2000.<sup>8</sup> More than half of that growth has occurred since FY 2009.

The three largest Manhattan business districts, Downtown Brooklyn and Long Island City account for 92 percent (\$155 billion) of the citywide total. Overall, offices represented 16 percent of the market value of all properties in the City (and nearly two-thirds of the value of all nonresidential properties).

The market value of office buildings in Midtown Manhattan has increased by 57 percent since FY 2009 to \$107 billion. This district represents nearly two-thirds of the office market value in the

City. Values have grown even faster (by 73 percent) in the Penn Station/Garment District submarket (which includes Hudson Yards).

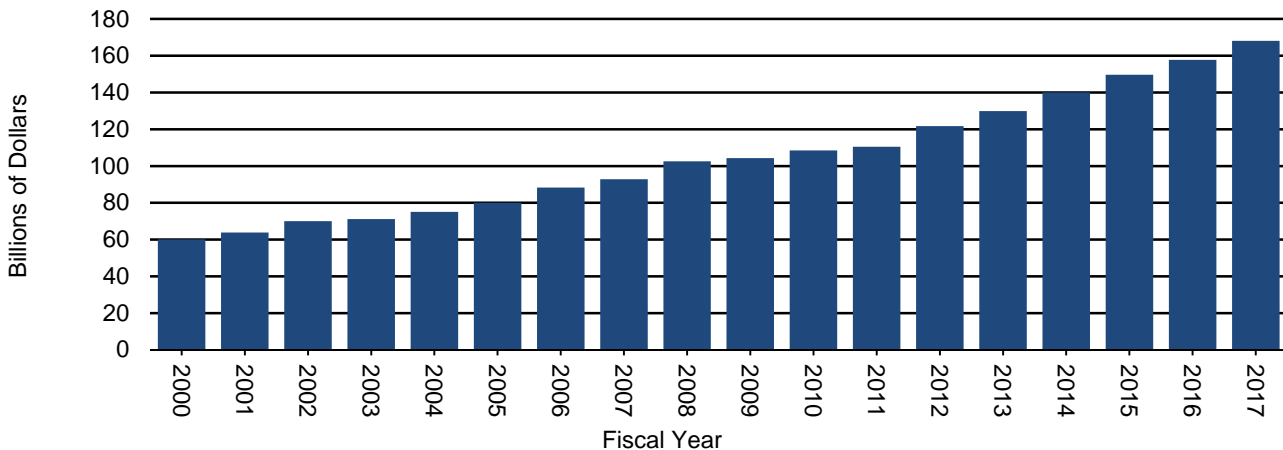
The market value of office space in Downtown Manhattan has increased by 57 percent since FY 2009 to \$23 billion, with more than one-third of the increase coming from the addition of new office space at the World Trade Center.

The market value of office space in Midtown South has more than doubled since FY 2009, reaching \$20 billion in FY 2017. This reflects strong demand in the Chelsea area resulting from the entry and expansion of technology companies such as Google, IBM and Adobe.

Values in the greater Downtown Brooklyn area (which includes Dumbo and the Brooklyn Navy Yard) grew by 46 percent since FY 2009 to more than \$3 billion. The area is a secondary market for Lower Manhattan, but a shortage of available office space in the area has kept the vacancy rate (5.5 percent in 2016) much lower than in Downtown Manhattan (11.2 percent). This has attracted proposals for new development.

Long Island City has also experienced a rapid increase in office market values with the advent of new construction. Market values now exceed \$1 billion, an increase of 58 percent since the end of the recession.

**FIGURE 4**  
Market Value of Office Properties in New York City



Sources: NYC Department of Finance; OSC analysis

## Contribution to Tax Collections

Two-thirds of all economic activity in New York City (\$550 billion in 2015) occurs in office buildings.<sup>9</sup> As such, the local office market is an important part of the economy and a large source of tax revenue for the City.

The Office of the State Comptroller (OSC) estimates that New York City collected a record \$5.8 billion in tax revenue from office buildings in FY 2016 (see Figure 5), nearly 11 percent of all City tax revenue. Collections increased by 56 percent between fiscal years 2010 and 2016, compared to a 43 percent increase for all other tax revenue.<sup>10</sup>

The largest source of office-related tax revenue comes from the City's property tax. Building owners paid \$4.8 billion in property taxes in FY 2016, which represented one-fifth of all property taxes collected in that year. Since FY 2010, property tax collections from office buildings have increased by 44 percent. The demand for office space and new construction has increased market values, driving the growth in tax collections in the absence of an increase in the average citywide property tax rate.

Real property transfer taxes paid on office property transactions reached \$378 million in FY 2016, the highest level since FY 2007

(\$568 million). The value of office building transactions reached \$14.4 billion in FY 2016, nearly a sixfold increase over six years.

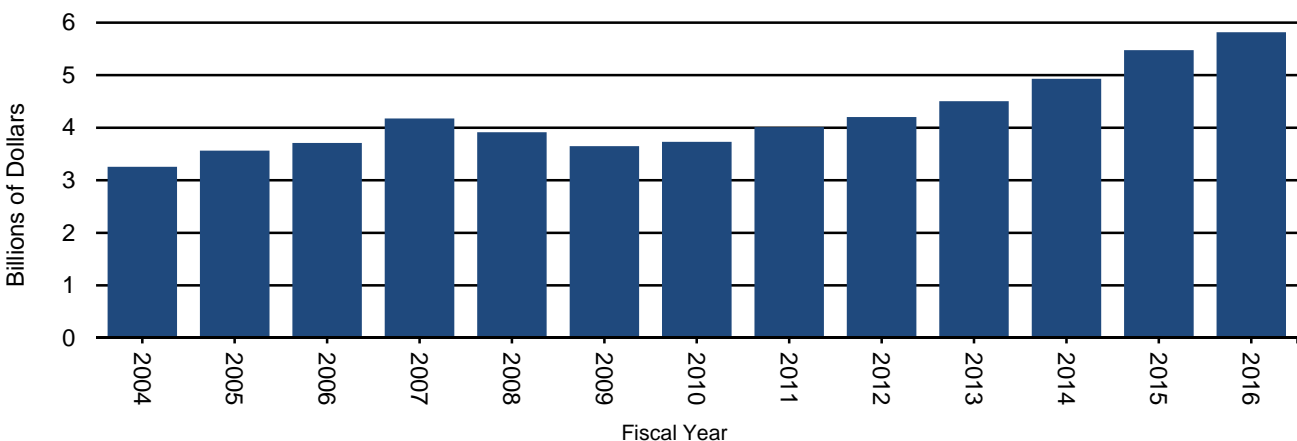
The increase in office building sales is a reflection of investor confidence in New York City. Sales activity has benefited from foreign investment, which accounted for about 40 percent of purchases during calendar years 2015 and 2016, more than twice the average of the three prior years.

The commercial rent tax, which is levied on the rent paid for commercial space located in Manhattan south of 96th Street, reached a record \$363 million in FY 2016. Collections rose by 30 percent between fiscal years 2010 and 2016, primarily driven by higher rents.

Collections from recording mortgages on office properties reached nearly \$320 million in FY 2016. Although collections have rebounded after plunging sharply during the financial crisis, they have not yet returned to the precrisis peak (\$405 million in FY 2007).

OSC estimates that office-related tax collections will reach more than \$6 billion in FY 2017. Continued growth in market values and new construction will drive property tax collections through the rest of the decade.

**FIGURE 5**  
Taxes Received by New York City from Office Properties



Sources: NYC Comptroller; NYC Department of Finance; NYS Department of Taxation and Finance; OSC analysis

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## Endnotes

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- <sup>1</sup> Based on data from New York City's property tax roll. Office properties include Class 4 properties categorized as either office buildings or office condominiums (like residential condos, office condos are individually owned). New York City's Department of Finance assisted OSC in identifying data for office condominiums, which have become more popular as an ownership structure in recent years.
- <sup>2</sup> The boundaries for Midtown are 65th Street and 30th Street; Midtown South extends from 30th Street to Canal Street; and Downtown is bounded by Canal Street and the Battery. All areas extend across Manhattan from the Hudson River to the East River. The sum of the three Manhattan business districts excludes office space north of 65th Street.
- <sup>3</sup> Data on the size of international office markets were collected from Colliers International, Cushman & Wakefield Inc., Jones Lang LaSalle Inc., Knight Frank, and Savills Studley Inc.
- <sup>4</sup> Data for central business districts were reported by Jones Lang LaSalle.
- <sup>5</sup> Office-based employment excludes activities that do not occur in office buildings, such as retail trade, restaurants, hotels, hospitals, education, transportation, construction and manufacturing. Office-based government employment excludes similar activities, as well as public safety and other uniformed services.
- <sup>6</sup> According to a report issued by the New York City Comptroller (issued in September 2002), 1 World Trade Center and 2 World Trade Center together totaled 9.5 million square feet of office space. Surrounding buildings in the complex accounted for an additional 3.9 million square feet of office space.
- <sup>7</sup> Average annual values are calculated from quarterly data reported by Jones Lang LaSalle.
- <sup>8</sup> Market value is the New York City Department of Finance's estimate of the worth of properties in New York City. The estimate includes properties that received exemptions for property tax purposes, such as public buildings and certain economic development projects. The market values reported by the Department of Finance are lagged by two years (e.g., the value in City fiscal year 2017 is based on data from calendar year 2015).
- <sup>9</sup> OSC estimates the economic impact by utilizing the IMPLAN<sup>®</sup> model to calculate the share of New York City's gross product generated by the office industry.
- <sup>10</sup> New York City last raised the citywide average property tax rate in January 2009. Differences in the growth rates of property values among the various types of properties has resulted in a marginal increase in the tax rate on office properties since 2009.

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